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C O N F I D E N T I A L SECTION 01 OF 02 GUATEMALA 000290

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [PGOV](#) [GT](#)
SUBJECT: AMBASSADOR INTERVENES TO PROTECT CITI FROM
CONGRESSIONAL MACHINATIONS

REF: 2008 GUATEMALA 1349 AND PREVIOUS

Classified By: Econoff Brian F. Harris for reasons 1.4 (b&d).

Summary

1. (C) In a March 19 meeting, the Ambassador urged Attorney General Velasquez not to let politicians influence the investigation of Citibank in the Mercado de Futuros (MDF) embezzlement case, in which \$11.2 million of congressional funds were stolen and lost in risky commodities investments. The Ambassador intervened at the request of Citi Guatemala leadership and after it appeared that FRG Congressman Aristides Crespo is trying to manipulate the case to target Citi and distract attention from the congressional role in the scandal. Velasquez acknowledged he was under political pressure to act against the bank, and that a previous investigation had not found wrongdoing by the bank. Following the Ambassador's intervention, Velasquez called the prosecutor handling the case and told him not to make any decisions without a report from the Superintendent of Banks detailing whether there had been wrongdoing. End Summary.

Background

2. (SBU) In mid-2008, press reports emerged that approximately \$11.2 million in Congressional funds had gone missing (reftel). Later, revelations surfaced that the funds had been transferred to the commodities trading firm MDF, and invested in leveraged financial instruments based on petroleum, Euros and other commodities near the peak of the commodities bubble in June 2008. The conspirators apparently planned to reap windfall profits which they were to divide among themselves, and then reintegrate the funds into congressional accounts before they were missed. The plan went awry when commodities prices subsequently collapsed and MDF's highly-leveraged position magnified the losses. When the scandal was revealed approximately half the funds remained invested with varying maturities. Government authorities decided to wait for the investments to mature to avoid early withdrawal penalties, and with the hope that commodities prices would recover. Continued price declines and probable theft of funds by the conspirators wiped out the investments. No money was recovered.

3. (C) Fallout from the scandal resulted in the dismissal and indictment of then President of Congress Eduardo Meyer, former President of Congress Ruben Dario Morales, several congressional staffers, and agents of MDF. A complaint was also filed against opposition Patriot Party (PP) leader and former presidential candidate Otto Perez Molina. Superintendent of Banks Edgar Barquin announced in July 2008 that he had evidence of complicity by 23 other members of Congress. The scandal marred the Congress' reputation, and was headline news for months.

Citibank's Role

4. (C) At the time the conspirators were carrying out their

plan, Citibank Guatemala was in the process of acquiring Guatemalan "Banco Uno," and was integrating its operations. The conspirators opened deposit accounts in the name of the Congress and MDF in Banco Uno. Congressional leaders transferred the funds into the MDF account where it was then invested in commodities. Banco Uno processed the transaction as instructed by Congress, apparently complying with Guatemalan banking regulations. The Embassy is aware of no evidence that any Banco Uno or Citibank employee was complicit in the scandal. Some in Congress complained that Citi improperly transferred the funds according to banking system regulations, which require one authorized signature, Qsystem regulations, which require one authorized signature, as opposed to the more stringent congressional regulations, which require two. Banco Uno, now Citibank, countered that the account had special instructions from the President of Congress that only one signature was required. The Attorney General's Office investigated the allegation and found no evidence of wrongdoing by Citi. The Superintendence of Banks also investigated and found evidence of an administrative mistake, for which Citi was fined.

Crespo Targeting Citi

15. (C) As the investigation proceeded, indictments were handed out. The trial for the head of MDF, Raul Giron, began the week of March 9. Congressional aide Byron Sanchez is under indictment, and extradition proceedings to bring him to Guatemala from Miami have begun. To date, no Congressional deputies have yet been convicted. However, some in Congress appear nervous that they may eventually be implicated, especially since no funds have been recovered.

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16. (C) Aristides Crespo of the FRG, who took over as President of Congress when Eduardo Meyer resigned over his role in the scandal, has been particularly active in his intervention. (Note: As of January 2009, Crespo is no longer President of Congress.) He maintains that he wants to recover the money and bring those culpable to justice. He and his lawyers have made near-weekly inquiries to the Superintendence of Banks and the Attorney General's Office to press for action against Banco Uno and its then-General Manager, Jose Ariaza. In one recent encounter, Crespo and five of his attorneys went to the Attorney General's office to sharply criticize Prosecutor Omar Contreras for failing to act against Banco Uno. Prosecutors also interviewed Barquin to press him on the Banco Uno aspect of the case. When he responded that Banco Uno had done nothing wrong, the attorneys threatened him with a public congressional hearing. Several sources confirm Crespo's actions, and all suspect he is trying to direct the investigation away from Congress and towards Citi so as to redirect blame. Crespo allegedly hopes to win either a legal judgment or settlement whereby Citi would reimburse Congress for at least some of the stolen funds. Once the funds were restored, the Attorney General's Office, already overwhelmed with other cases, would presumably drop ongoing investigations of Members of Congress.

17. (C) Citi Guatemala CEO Juan Miro has grown increasingly concerned about Crespo's activities. Miro is comfortable with Citi's legal position but worries that the Attorney General's Office will give in to Crespo's political pressure, formally indict Citi, and issue an arrest warrant for Ariaza. Should this occur, Miro feels depositors could lose confidence in Citi Guatemala, especially in light of the widely-reported woes of the parent company. Miro asked the Embassy to intervene with the Attorney General's Office. In a separate meeting, Barquin, the Superintendent of Banks, also suggested the Embassy intervene on behalf of Citi.

Ambassador Intervenes

18. (C) On March 19, the Ambassador met with Attorney General Velazquez to discuss the issue. He emphasized that if Citi

or any of its employees were found to have violated the law, they should face justice. However, Velazquez should not succumb to political pressure to indict Citi or Ariaza. Velazquez acknowledged that Crespo continues to pressure his office and noted that a previous investigation had not found any wrongdoing by Citi. He seemed a bit uneasy about standing up to Crespo, but hoped the Superintendent of Banks would issue a written technical report absolving Citi. He said that he could use such a report to stop any congressional pressure. (Note: Barquin told Econoff that his office was drafting such a report, but did not offer firm dates for its completion. End note.) During the conversation with the Ambassador, Velazquez called Prosecutor Contreras and told him "not to make any decisions" with respect to Citi, until they had all the facts. He went on to say the situation needed to be handled "delicately." The Ambassador's intervention appeared to forestall any imminent action against Citi in Guatemala.

Comment

19. (C) Crespo hopes to distance himself and his friends in Congress from the MDF embezzlement scandal, and to deflect blame from Congress to Citibank. It is unclear whether Crespo is among the 23 congressional deputies implicated by the Superintendence of Banks in the scandal. We will press Barquin to quickly complete his report on Citi, although we will not ask him to tailor the report's contents to favor Citi. The Embassy will continue its efforts to ensure that Citibank and other U.S. companies receive a fair, unbiased hearing in Guatemala's notoriously malleable judicial system.
McFarland